

## Message Text

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ACTION INT-05

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COME-00 FEA-01 TRSE-00 L-03 OMB-01 /035 W

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R 131500Z JUL 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 6759

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL SALVADOR

UNCLAS BRASILIA 6113

FOR INTERIOR DEPT, BUREAU OF MINES, L. NAHAI

CONGEN RIO DE JANEIRO DRAFTED THIS TELEGRAM; EMBASSY CONCURS

E. O. 11652: N/A

TAGS: EMIN, BR

SUBJECT: CARMOPOLIS POTASSIUM DEPOSITS

REF: STATE 150746

1. SUMMARY: GOB HAS RESOLVED THE LONG-STANDING DISPUTE OVER EXPLOITATION OF THE SERGIPE POTASSIUM DEPOSITS BY CANCELLING KALIUM MINERACAO'S CONCESSION AND ASSIGNING THESE RIGHTS TO PETROBRAS, THE NATIONAL OIL COMPANY.

END SUMMARY.

2. IN A DECREE PROMULGATED JUNE 1, GOB REVOKED THE RIGHTS GRANTED COMPANHIA DE PESQUISA DE RESERVAS MINERAIS (CPRM) TO EXPLOIT THE CARMOPOLIS (SERGIPE) POTASSIUM DEPOSITS. SINCE CPRM HAD CONTRACTZCNMTIS CONCESSION TO KAKIUM MINERACAO, THE NET EFFECT WAS TO ELIMINATE KALIUM MINERACAO FROM FURTHER DEVELOPMENT OF THE POTASSIUM DEPOSITS. AT THE SAME TIME, PRESIDENT GEISEL SENT TO CONGRESS A LAW RESERVING

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TO PETROBRAS THE RIGHT TO DEVELOP ANY MINERAL DEPOSITS IN

AREAS WHERE THE NATIONAL PETROLEUM COUNCIL DETERMINES THAT THE DEVELOPMENT OF THESE MINERALS, SUCH AS THE SERGIPE POTASSIUM DEPOSITS, WOULD BE INCOMPATIBLE WITH PETROLEUM DEVELOPMENT.

3. KALIUM MINERACAO, A SUBSIDIARY OF THE LUME GROUP, WAS AWARDED THE CARMOPOLIS POTASSIUM CONTRACT IN 1972, AFTER A COMPETITIVE BIDDING PROCESS. THE LUME GROUP WAS PRIMARILY INVOLVED IN CIVIL CONSTRUCTION AND FINANCIAL ACTIVITIES. KALIUM MINERACAO HAD NEITHER THE FINANCIAL RESOURCES NOR THE TECHNICAL ABILITY TO EXPLOIT THE POTASSIUM. A COMPLICATING FACTOR WAS THE OIL DEPOSITS IN THE AREA WHICH BECAME ESPECIALLY VALUABLE AFTER THE 1973 OIL PRICE RISE. IN FEBRUARY 1974 THE NATIONAL PETROLEUM COUNCIL ORDERED KALIUM TO CEASE ALL OPERATIONS IN THE AREA. THE STATED JUSTIFICATION FOR THE ORDER WAS A PETROBRAS OBJECTION THAT THE PROPOSED METHOD OF EXPLOITING THE POTASSIUM (SOLUTION MINING TECHNIQUE) WOULD BE INJURIOUS TO THE PETROLEUM DEPOSITS.

4. KALIUM MINERACAO HAD NOT TECHNICALLY VIOLATED THE TERMS OF ITS CONCESSION, AND THERE WERE STRONG PRESSURES ON THE GOB NOT TO REVOKE THE CONCESSION. HOWEVER, THE DETERIORATING FINANCIAL CONDITION OF THE LUME GROUP (IT IS CURRENTLY BEING LIQUIDATED BY THE CENTRAL BANK), THE DESIRE OF THE LOCAL SERGIPE AUTHORITIES TO SEE THE POTASSIUM DEVELOPED, AND THE INCREASING POTASSIUM IMPORT BILL FINALLY LED TO THE GOB DECISION ANNOUNCED JUNE 1.

5. THE POTASSIUM WILL NOW BE DEVELOPED BY PETROBRAS EITHER THROUGH ITS CHEMICAL SUBSIDIARY, PETROQUISA, OR A NEW SUBSIDIARY FORMED FOR THIS PURPOSE. REPORTEDLY KALIUM WILL RECEIVE INDEMNIFICATION FROM CPRM FOR LOSS OF THE CONCESSION WHILE CPRM, IN TURN, WILL BE COMPENSATED BY PETROBRAS.

CRIMMINS

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